GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5205
ANSWERED ON:29.04.2005
FOREIGN FINANCIAL INSTITUTIONS
Chinta Mohan Dr. ;Singh Shri Rajiv Ranjan (Lalan)

Will the Minister of FINANCE be pleased to state:

(a) whether the Foreign Financial Institutions are playing a major role in creating a situation of boom and slump in the stock market since their entry;

(b) if so, the reaction of the Government thereto and whether the said situation is affecting the health of our economy;

(c) if so, whether the Government has taken certain steps to keep the situation in control; and

(d) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM):

(a) and (b) Yes, Sir. The Securities and Exchange Board of India has informed that amongst the various types of investors in the Indian securities market, Foreign Institutional Investors (FIIs) form a significant group and invest according to their perception of the Indian economic fundamentals. With the exception of one year (1998), net FII investments in India have always been positive from inception (1992), till date. During the same period, the stock markets have witnessed a number of cyclical rises and falls. As of March 31, 2005 net investments by FIIs amount to about US $ 36 billion.

(c) and (d) Investments made by FIIs is governed by the guidelines for Foreign Institutional Investors issued by Government of India and the SEBI (FII) Regulations, 1995, which together lay down certain checks and balances. Some of them being:

1. The FII Regulations, 1995, specifies the categories of institutional investors which are eligible for grant of FII registration. Further, only board-based institutional investors which are regulated in their country of origin, are granted FII registration.

2. The aggregate investment by one FII in a company is subject to an investment limit of ten per cent of the total issued capital of that company. Further, aggregate investments by all FIIs in a company is limited to the FDI sectors cap applicable to the sector to which the company belongs, additionally, investments by FIIs is debt securities are limited to the overall limit specified by the government and to a FII-wise individual limit specified by SEBI. Further. FII investments in futures and options are restricted to the position limits laid down by SEBI.

3. FII can transact business only on the basis of taking and giving deliveries of securities bought and sold and are prohibited from engaging in short selling of securities.